

SAPC 2640/D
COPY 1 OF 2

November 15, 1955

STAT

I am enclosing our invoice 45028 for a partial payment of \$35,435.32 covering the costs incurred by Hycon during the period from September 27, 1955 through September 30, 1955. A detailed breakdown of the cost is given below.

Raw material, purchased parts & outside processing	\$11,385.81
Direct costs	3,239.03
Direct Labor	1,669.02
Burden on direct labor	13,873.44
G & A	<u>5,268.02</u>
	\$35,435.82 ✓

During my recent visit to California, I discussed with the people at Hycon the fact that on individual progress payment invoices submitted the overhead rate seemed rather high as compared to Direct Labor Costs. I discovered that this is due to the fact that two progress payment invoices are submitted each month.

The first invoice covers the first three weeks of the month and only those overhead items which have been completely processed by this time are included in the invoice.

The second invoice covers the last week of the month and all overhead items not included on the first invoice are picked up on this invoice. Thus, no definite ratio between overhead and direct labor can be established on the basis of each invoice submitted. The direct labor and overhead for the entire month must be totaled from the two invoices submitted in order to establish the overhead rate on direct labor for the month. On this basis, the total overhead to date is about 140% on direct labor. This is a higher rate than originally anticipated by Hycon and every effort is being made to reduce the rate.

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RMS/dmg